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The Implementation of Standards for Securities Markets as a Source of Competitiveness

Silvio John Camilleri

Abstract

This analysis discusses the importance of the operations of securities exchanges and securities markets, with particular reference to their relationship with competitiveness. Following a review of the current trends within the worldwide securities industry, the main principles which govern the coherent operations of securities markets are outlined. The practical issues involved in the implementation of standards, and their relevance to smaller exchanges are also evaluated.

1. Introduction

Securities markets are vital participants in the flows of funds from savers to productive users. Individual investors are increasingly considering the investment outlets offered by securities markets, as they seek to provide for their retirement. Corporate borrowers often opt for an alternative to the traditional bank finance, given that this may translate into a lower cost of funds. In view of this, securities markets perform vital functions in channeling funds within the economy, and therefore their efficiency, integrity and development is of general economic importance.

After discussing the reasons why the operations of securities exchanges and markets are of economic interest, this analysis reviews the current trends within the worldwide securities industry. Following the main principles which govern the coherent operations of securities markets are analysed, together with the practical issues involved in the implementation of standards, and their relevance to smaller exchanges.

2. The Objectives Of International Securities Arrangements

The objectives of implementing standards concerning securities markets may be categorised as shown below. One should note that these objectives are closely related to each other.

2.1 The Adoption of Common High Quality Standards

One main objective of adopting common benchmarks is to ensure a suitable level of stability in the financial systems, as parties operate according to a set of minimum standards. Within a globalised environment, economies and financial systems are becoming increasingly interconnected, and the crisis in a weak link in the chain may impact on other economies, as instability spreads across different countries. Therefore the co-operation and sharing of information between different regulators is intended to minimise market disruptions and to reduce systemic risk.

Another concern which may be overcome through the implementation of common standards is competitive deregulation. The latter is the process whereby national governments, in an attempt to gain market-share in the global financial markets, lower the standards of their regulatory system. Adequate common standards prevent organisations from trying to avoid onerous requirements by operating from countries where regulation is lax.

2.2 Fostering a suitable environment for the Efficient Allocation of Capital

If capital is to be allocated to the best available opportunities, information should be disseminated in order to enable investors to take the relevant decisions. This explains why considerable importance is devoted to the issues of disclosure and transparency. The latter is the degree to which information about trading prices and the depth of the market is published on a real-time basis.

In addition, market practices should be designed to ensure the fair treatment of orders and a reliable price formation process. This entails particular attention to the trading setup and to the trading rules. These issues are closely connected to investor protection, in terms of the prevention of inappropriate trading practices.

2.3 Investor Protection

Investors should be protected from unjust market practices. The latter include the favouring of some participants over others, insider trading, and attempts at market manipulation. The latter may become more widespread in the context of an internet environment, where unfounded information and advice may be disseminated. Investors may also be vulnerable to the misconduct of market intermediaries and the operators of exchanges, and therefore these should be duly licensed and supervised.

Information dissemination is again relevant, given that this is a pre-condition to enable investors to assess the potential risks and rewards of their investments. The system should aim at suitable disclosure requirements. Theoretical studies such as Blackburn, Bose and Capasso (2005), conclude that information asymmetries may materialise in reduced resources available for investment, which may ultimately result in lower growth rates.

2.4 The Link Between Standards and Competitiveness

Whilst implementing standards and regulation to govern the operations of securities markets and exchanges may raise compliance costs, the potential benefits to be reaped may also result in lower borrowing costs and thus increased competitiveness. For instance, the implementation of standards that reduce asymmetric information and market manipulation should decrease the systemic risk in the securities markets, leading to a lower required return on part of investors. If efficient exchanges are successful in offering lower borrowing costs for businesses, this impacts on the competitiveness of business borrowers on a micro level, and consequently the competitiveness of the economy at a macro level.

As discussed above, stock exchanges assist the process through which capital is allocated towards the best economic opportunities. This is desirable from a macroeconomic point of view, given that when the available resources are put to the most productive uses, competitiveness is enhanced.

The benefits to be reaped from efficiently-operating exchanges may have wider impacts on traditional methods of finance such as bank loans. Borrowers may choose to disintermediate their financing process if they feel that the costs of bank borrowing are unjustifiably high. The resulting competition between direct financing and bank finance should drive banks towards higher levels of efficiency, again translating into a lower cost of funds for businesses.

The above ideologies are usually pursued through international agreements and standards, which are then enshrined in the regulatory set-up of the adopting countries.

3. Current Trends In Securities Markets

The international efforts directed towards achieving a reliable environment for the international trading of securities, should be discussed in the context of the current factors impacting on these markets outlined below.

3.1 Technology and Competition

Historically, exchanges were physical meeting places, where interested parties could buy and sell the products traded on the particular exchange. Improvements in technology and market deregulation led firms to cross-list on several exchanges. Gradually the “physical aspect” of the stock exchange became less important, and nowadays members of a particular exchange can trade

without being physically present on the trading floor.

Technology enhanced information availability, and nowadays information about most markets is easily obtainable. These aspects were coupled with an internationalisation of equity investment – investors entrust their funds to investment managers who do not restrict their portfolios to local securities. These developments led to increased competition in between exchanges and higher demand for cross-border trading.

Different exchanges had different responses to the above factors; however, they all laid particular attention to information dissemination and to the modernisation of trading floors through implementing electronic trading and back office systems in order to increase efficiency.

3.2 The Regulatory functions of Securities Exchanges

Though the regulatory responsibilities of exchanges vary in between countries, they are often shared between government institutions, securities commissions, and other bodies. Exchanges are at times entrusted with the responsibility of approving the prospectuses of issuers, and become involved in the surveillance of the markets practices in the interest of market integrity. When an exchange participates in the supervision of securities transactions, there is the advantage of having a supervisor which benefits from its nearness to the actual market. Yet, the regulatory function of securities exchanges is being increasingly de-emphasised on the grounds that this may at times lead to conflicts of interest. For instance, an exchange might be lenient when approving the listing of corporate securities, in an effort to increase business.

As referred to later on, exchanges perform their regulatory functions under the supervision of administrative authorities and therefore they are subject to accountability.

3.3 Demutualization

Another important trend lies in the governance of exchanges. The latter were previously governed by market intermediaries, but gradually listed companies and investor representatives were allowed on to the boards of different exchanges. Nowadays, some exchanges are choosing to restructure as a listed company. This is not a simple cosmetic change given that it underlies the shift in mentality from serving the members of the exchange to acting proactively in the interest of the entire market and shareholders.

The trend for stock exchanges to become for-profit enterprises is referred to as demutualization. Most exchanges were historically not-for-profit organisations, which were owned by their members. Demutualised exchanges may become public companies listed on their own trading floor, while others remain as private corporations.

Underlying the demutualization trend, is the ever increasing level of competition between exchanges and other trading systems such as internet-based ones. This is entailing exchanges to hasten their decision making processes, expanding direct trading access and considering possible mergers with other exchanges.

Thus, nowadays, we may speak of exchanges as companies which offer pricing, information, and liquidity services. They operate in a competitive environment, as is the case of most other

business entities, and have to satisfy shareholders in terms of profitability. This contrasts with past models of securities exchanges, when it was quite common for an exchange to hold a monopoly in its jurisdiction.

It might be argued that the pursuit of profitability may lead to conflicts of interest, given that this might not be compatible with the regulatory functions of exchanges. However, this is not necessarily the case, given that exchanges have to be concerned about quality, even when pursuing profitability. In both cases, the end result should be securities markets which have the qualities of effectiveness, efficiency and speed, at a cheap cost. In both cases, there is a concern for instilling investor confidence in the mechanisms, through transparency, investor protection and the integrity of intermediaries. In the absence of this, exchange business would suffer – irrespective of the profit objectives of the institution.

One particular issue which is often discussed with respect to demutualization is whether an exchange whose shares may be bought and sold through its own trading mechanisms can function effectively as its own regulator. One should keep in mind, that in such cases, the exchange still has an incentive to act fairly, because if it grants unfair concessions as regards its own shares, other issuers may move their listings elsewhere. In addition, the risk to the exchange's reputation as a fair market posed by some dubious behaviour, probably outweighs any possible gains.

3.4 The Expansion to other Markets

Most exchanges nowadays trade a wide variety of products which cover the securities process from primary through secondary markets, in addition to clearing and settlement and custody services.

One particularly evident example of a new market which was developed by exchanges is the trading of derivative contracts which have quoted securities or price indices as their underlying instrument. These markets have particular competitive implications, given that trading in derivatives is often a multiple of the turnover of the underlying cash instruments. In addition, derivative contracts may be created by the exchanges themselves, which is not the case with the cash instruments, where exchange turnover is dependent on the amount of securities which companies actually issue.

3.5 The Awareness about Market Microstructure

The relatively new area of market microstructure explains why it makes sense for regulators and exchanges to probe into certain aspects of securities trading. For example, studies such as those by Demsetz (1968) and Tinic (1972) suggest that the costs of supplying liquidity are affected by order flow, which in turn depends on the adopted trading system.

In addition there is a link between bid-ask spreads and private information i.e. information which is not known to all market participants. Authors such as Kyle (1985) argued that market makers use order flow to update their beliefs about the value of securities. Market makers estimate the probability of trading based on private information and adjust bid-ask spreads accordingly. The higher the amount of estimated private information, the higher the bid-ask spreads. This adds to trading costs, and decreases the returns from holding the stock which results in higher financing

costs for the issuer.

Studies have also examined into the impacts of other policies such as trading halts [Lauterbach and Ben-Zion (1993), Lee, *et. al.* (1994) and Hauser *et. al.* (2006)] market transparency [Bloomfield and O'Hara (1999) and Hendershott and Jones (2005)] and the links between brokers' operations and the trading process [Stoll (1978), Wahal (1997) and Chakravarty and Sarkar (2002)].

The above literature, explains why regulators are concerned with the particular trading infrastructure which is adopted in securities markets. In addition, trading systems and practices must satisfy ultimate investors, in terms of inspiring confidence that they are obtaining a fair deal.

4. The Principles Underlying Securities Markets Financial Arrangements

IOSCO (International Organisation of Securities Commissions) is one important driver of securities markets standards.¹ The organisation's efforts are based on a set of principles which countries are encouraged to embody in their own regulatory setup.² This section summarises these ideologies.

4.1 Principles Relating to the Regulator

Regulators should operate independently according to clearly stated responsibilities. Their statute should provide for the sufficient powers and resources which are required to exercise these responsibilities. Regulators should be operationally independent and accountable in the exercise of their functions and powers. The information obtained by regulators through the course of their duties is confidential, although this should not preclude co-operation in between regulators, as discussed below. Regulators should also be at public scrutiny.

4.2 Principles for Self-Regulatory Organisations

SROs should be responsible for exercising supervision, when they are delegated such functions in their areas of competence. SROs should in turn be supervised by the main regulator. Aspects relating to confidentiality and cooperation with other regulators are relevant to SROs as well. In addition, SROs should not use these responsibilities as an unfair competitive advantage versus other operators.

4.3 Principles for Issuers

Issuers of securities should comply with respective disclosure requirements, principally, by publishing their financial results and other facts which may have material implications in terms of pricing and investors' decisions. Disclosure requirements apply both in the advertising for public offerings, and subsequent to the flotation when information should be circulated on a timely and ongoing basis.

Issues should be subject to specific and general disclosure requirements. Specific disclosure requirements include obligations to state who has a significant interest in the company, those who seek control of the company, and other issues related to corporate governance. Such requirements

¹ A list of Organisations involved in the securities markets field is shown in the Appendix

² "Objectives and Principles of Securities Regulation", IOSCO, February 2002

should be supplemented by a general disclosure requirement, which provides for the disclosure of any other material information.

At times, it might not be in the company's interest to promptly publish sensitive information, such as the proceedings of unfinished merger negotiations. In such cases, trading in the particular securities should be temporarily suspended, given that such situations might favour those parties who possess insider information.

Information published by issuers, should be accurate and reliable. Financial results should be drawn up according to internationally accepted accounting standards and audited, for the sake of accuracy and comparability in between companies.

Securities regulators should also aim at facilitating cross-border offerings and listings, and IOSCO recommends the implementation of the International Disclosure Standards for Cross- Border Offerings and Initial Listings by Foreign Issuers.

Issuers should treat the holders of their securities in an equitable manner.

4.4 Principles for Collective Investment Schemes

Collective investment schemes present a convenient way through which investors may diversify their portfolios in the absence of having large sums of money available for investment. Regulators should establish requirements for the licensing, and the management of collective investment schemes, especially with regards to the protection and segregation of client assets. Disclosure requirements should also be applicable to collective investment schemes, including the basis on which the prices of shares are established, the inherent risks of the scheme, the fees related to the investment, and under what conditions may the units be redeemed.

The operators of collective investment schemes should be subject to eligibility criteria, in terms of their integrity, competence and financial capacity. In addition, they should maintain appropriate records relating to the scheme, which are an essential tool for supervisors to determine whether the venture is conforming to its obligations. The latter should include regulations with respect to best execution and the timely allocation of transactions.

When the operators of the scheme delegate part of their responsibilities to a third party, the above obligations should still be fulfilled. Collective investment schemes are also marketed across different countries, and therefore effective surveillance pre-supposes the cooperation of different supervisors.

4.5 Principles for Market Intermediaries

Market intermediaries should be suitably classified, usually according to whether they are authorised to manage individual portfolios, whether they simply execute orders, whether they deal exclusively in the distribution of particular securities and whether they are solely offering financial advice – or any combination of these.

The licensing of market intermediaries should be subject to the latter satisfying pre-specified

minimum standards, including capital requirements. Such requirements are established in order to deal with cases where poor management leads to the failure of an intermediary, failure to obtain appropriate settlement on behalf of a client or possible misappropriations of client money.

Intermediaries should be required to protect the interests of their clients. The latter should have access to a suitable complaints mechanism, which should be effective in dealing with cross-border transactions.

Regulators should assess the adequacy of the risk management processes of intermediaries, possibly with the help of SROs or external auditors. Regulators should have access to information from intermediaries, in addition to the power to inspect their documents and possibly revoke their license.

Regulators should also pre-establish the procedures for dealing with possible failures of market intermediaries in order to minimize the disruption to the financial system.

4.6 Principles for the Secondary Market

Trading systems, including securities exchanges, should be subject to the prior approval of regulators. Regulators must be satisfied as regards various aspects of the trading methods, such as the price formation process, the rules of the system, order execution procedures, system participants, types of financial instruments being traded, the clearing and settlement process and governance arrangements. Trading systems should be subject to ongoing surveillance in order to ensure that trading is executed in a fair manner. Approval from the regulator should be required for operators to amend their trading system rules.

Prior to allowing intermediaries to access the trading system, its operators must be satisfied of the integrity of the intermediary.

Regulators should detect inappropriate practices occurring on the secondary market, such as attempts at market manipulation and insider dealing. Again, cross-border regulatory cooperation is relevant here, for example in cases where the 'cash asset' and its' associated derivative trade in different countries.

Regulation should promote transparency of trading. Information on completed transactions, and unsatisfied orders should be provided on the same basis to all participants.

Clearing and settlement of securities transactions should also be subject to supervision, given that this area may have considerable implications for systematic risk. A disruption in any of the institutions that assist in the clearing function, or a disruption in any of its' main users, could result in liquidity problems or losses for other participants. Clearing and settlement systems should be under the direct supervision of the main regulator who should establish that these systems function efficiently in terms of trade verification, margin and netting requirements.

Technological improvements imply that markets are becoming increasingly automated, for example in the development of cross-border screen based trading systems. The latter link market participants across jurisdictions without the necessity for intermediation via an exchange floor, and this presents new economic, financial, legal and regulatory issues.

5. Putting Standards Into Practice

Establishing standards and regulations may prove to be an intricate issue. The appropriate regulation partly depends on the nature of the market and there are also challenges in implementing regulations. Standards should gain acceptance by a wide variety of jurisdictions, which must then embody them in their regulation, and enforce them. The co-operation between supervisors is a key determinant of the possible success in this regard.

5.1 Cooperation

As stated previously, players in securities markets are becoming increasingly international. For example, companies often seek to have their securities cross-listed on foreign exchanges and intermediaries may opt to operate in more than one country. Financial conglomerates operate in a number of countries and are therefore subject to the supervisory oversight of a number of regulators.

This emphasises the importance for regulators to establish strong collaborative relationships between them. Professional secrecy considerations should not hinder the forwarding of information between regulators as this is a necessary pre-condition in supervising cross-border transactions. In this respect, supervisors should aim for effective information sharing mechanisms across jurisdictions. Such arrangements should identify the circumstances when information may be requested, and the information which may be provided subject to confidentiality conditions.

There is yet another dimension to cooperation between regulators. This occurs when financial system regulators have to cooperate with other types of authorities, such as in the case of criminal investigations of money laundering activities.

5.2 Implementation

The effectiveness of international financial standards may be hampered by the fact that their implementation is a sovereign decision and countries usually employ such standards when it is in their own national interest. In addition, a number of countries would rather adopt their own “tailor-made” standards which they consider to be more appropriate for their economic circumstances.

Countries also fear any possible adverse publicity, should they choose to adopt given standards and then fail to comply at a later stage. In addition, the implementation of standards requires a considerable amount of resources, such as nurturing the necessary technical expertise, both in terms of regulators, supervisors and other market players.

In this respect, cooperation is again relevant in achieving a widespread acceptance of standards across countries. Ideally, a wide range of countries should be involved in establishing the standards, given that a country should be more willing to adopt standards if it has participated in their creation. International institutions should also assist countries in the implementation process.

5.3 Enforcement of Securities Regulation

Standards have to be embodied in the regulatory set up of particular jurisdictions. Supervisors should have the power to exercise their duties, and to conduct preventive surveillance programs. In addition, supervisors should have the power to request information and inspect the operations of exchanges and intermediaries. These should be supplemented with investigation and enforcement programs where necessary.

Regulators should also be in a position to impose administrative sanctions on market players, have the power to initiate or to refer matters for criminal prosecution, and require the intermediary to suspend trading if necessary. Notwithstanding this, investors should still be able to seek legal actions against their own intermediaries.

In addition, legislation and the enforcement powers of the regulator should be adequate for dealing with cases of cross-border misconduct, such as money laundering. If any of the regulatory functions are delegated to SROs or other parties, the latter should also be subject to disclosure and confidentiality requirements.

6. The Role Of Smaller Securities Exchanges

Whilst the global securities markets are dominated by the big names, such as the New York Stock Exchange, Nasdaq, and the London Stock Exchange, the role of smaller stock exchanges should not be overlooked. Smaller exchanges should serve as suitable means through which smaller companies can tap funds. Such companies are usually well known within their region; however they may find the marketing campaigns and fees involved when listing on a major exchange to be prohibitive. Given this, it is generally considered as advantageous for companies to list in their own country or region and smaller companies are not likely to list on distant exchanges unless the additional liquidity and access to capital make it worth the effort and cost.

Another important role of smaller exchanges is the gathering and provisioning of market information. Such information is nowadays required on a global basis, as fund managers increasingly diversify their portfolios, and seek the most attractive risk-return combinations.

Exchanges are subject to direct competition on an international basis and therefore they should spot and take advantage of any opportunities when they come along. These opportunities may be in the form of proposed mergers or agreements aimed at closer cooperation between exchanges. In addition, smaller exchanges should not overlook the possibility of attracting cross-listings from companies which are already listed on other exchanges. Through the use of appropriate technology and infrastructure, securities listed on smaller exchanges should be accessible internationally, and this may reduce the traditional disadvantages of remoteness from the major financial centres.

In this respect, the infrastructure and systems of exchanges (especially the smaller ones), should be able to interact with those of others. Compatibility in between systems is becoming increasingly important as exchanges seek to interconnect trading systems and develop a global market structure based on transparency.

Smaller exchanges have the potential to create a niche market, through the retention of characteristics which are particular to a given market. However, this should not compromise the adherence to internationally accepted standards and arrangements. Indeed, it may prove to be advantageous to such exchanges, to adopt such standards right at their initial stages, in order to gain credibility.

7. Conclusion

This study has reviewed the objectives and principles of international arrangements relating to securities activities, and the practical issues involved in implementing them within the context of the current trends affecting this arena.

As a concluding note, it may be pertinent to say that there is no one single ‘correct’ approach towards the implementation of the concepts discussed throughout this study. The particular manner in which countries choose to approach these standards partly depends on their domestic context.

Implementation should not overlook the fact that securities market standards relate to appropriate legal, accounting and fiscal frameworks. In addition, adequate requirements can no longer be applied independently of the trends in other major systems – the effective supervision and enforcement of securities markets often require suitable interaction between regulators, both at the domestic and international levels.

The re-regulation of securities activities should be an ongoing process, as markets develop and innovate through new products and methods of operation. International financial standards for securities markets should not be viewed as a burden. The regulatory set up should not impose excessive obligations on the market or hinder growth or financial innovation within the economy through excessive requirements which inhibit justified risk taking. On the contrary, standards should be aimed at fostering efficiency in the financial system, in order to serve as a competitive edge within the real economy. In addition, they should serve as a means through which jurisdictions may gain international acceptance and credibility.

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APPENDIX – SECURITIES MARKETS ORGANISATIONS

The establishing and implementation of arrangements and standards with respect to securities markets is driven by various international and regional organisations, including the ones shown below.

IOSCO (International Organisation of Securities Commissions)

IOSCO is the leading international group of securities market regulators. Its members include various regulatory bodies originating from different countries. The main objective of this organisation is to foster a high degree of interaction and cooperation between regulators, at the domestic and at the international level. This entails the exchange of information between regulators, the establishment of standards and an effective surveillance of international securities transactions.

IOSCO has published a range of reports and its members have adopted a number of resolutions, which constitute an important source of information on the principles that underlie effective securities regulation.

WFE (World Federation of Exchanges)

The World Federation of Exchanges has members from worldwide exchanges, settlement institutions and clearing houses. WFE is concerned with the discussion of issues which impact on the efficiency and integrity of securities markets and it establishes standards to be followed by the industry. WFE also provides assistance as regards business strategies and management policies, especially to newly set up and smaller exchanges. Membership of WFE is only possible after an operator has assumed commitment to prescribed standards.

BIS (Bank for International Settlements)

While the primary functions of BIS are not exclusively related to securities markets, this institution often works in this area, for instance in the establishment of Recommendations for Securities Settlement Systems. The BIS's Committee on Payment and Settlement Systems (CPSS) monitors developments in domestic payment, settlement and clearing systems as well as in cross-border and multicurrency settlement schemes.

The Committee on the Global Financial System is concerned with the examination of broad issues relating to financial markets and systems, with particular reference to the analysis of threats to the stability in the global financial system. This Committee is particularly concerned with increasing the transparency of financial markets.

SEC (Securities Exchange Commission)

The primary motive of the U.S. Securities and Exchange Commission (SEC) is to protect investors and maintain the integrity of securities markets. SEC is particularly concerned that all investors have access to basic information, and it therefore requires public companies to comply with disclosure requirements.

The SEC also supervises the main participants in the U.S. securities markets, including stock exchanges, brokers, investment advisors and collective investment schemes. It is involved in enforcement actions against individuals and companies that breach securities laws, such as in cases of insider trading, accounting fraud, and providing false or misleading information.

CESR (Committee of European Securities Regulators)

CESR represents European national securities authorities and aims at improving coordination among these bodies. It also acts as an advisory body to assist the European Commission in the regulation of Europe's securities markets. In order to promote common and uniform implementation of EU securities law, CESR may issue guidelines, recommendations and standards.

FESE (Federation of European Stock Exchanges)

FESE represents the collective interests of European exchanges, through focussing on the main European Union institutions (Commission, Parliament, Council) and CESR. FESE is a trade association with a main interest in legislative and regulatory issues for financial and capital markets at the level of the European Union.

ICMA (International Capital Market Association)

Formerly known as International Securities Market Association, ICMA is a self-regulatory organisation and a trade association for international securities markets. ICMA currently has members from over 40 countries. Its main aims include the analysis of the fast-changing marketplace through the issuing of rules and recommendations relating to trading and settlement practices. The Association's bye-laws provide for disciplinary proceedings and procedures for the settlement of disputes through conciliation and arbitration.

Self Regulatory Organisations

Regulatory regimes of securities markets may involve Self-Regulatory Organizations (SROs) which may constitute an important complement to the main regulator in achieving stated objectives. These bodies have first hand knowledge of the market, which proves invaluable in implementing certain safeguards, such as those dealing with insider trading. Market players are also more likely to follow rules that they have participated in developing. In addition SROs may be successful in implementing higher ethical standards which go beyond those of the main regulator.

Exchanges themselves may often be classified as SROs. For example, they are often

entrusted with the surveillance of market intermediaries and with ensuring that listed companies adhere to governance and disclosure standards. SROs should be overseen by the main regulator, who should ensure that they observe standards of fairness and confidentiality when exercising delegated powers and responsibilities.

The main regulator should monitor and address any potential for conflicts of interest that may arise on part of SROs. For example, when entrusting one particular exchange with self-regulation, the SRO may utilise the fees paid by market participants in order to subsidize its own commercial operations. The regulatory obligations delegated to a particular operator, should not translate into a competitive advantage over its peers. One potential solution to such a problem may lie in establishing a Committee to whom issues should be referred in case of conflicts of interest. Such Committee might also include representatives of the exchange itself. In addition, regulators should also oversee those exchanges which are involved in enforcing regulation, in order to confirm that they are doing so in a coherent manner.